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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL/AG UPDATE MARCH 1-7

MADRID 00000287 001.2 OF 002

Table of Contents:

ECON/EFIN: Dubai Sovereign Investment Fund (ICD) buys
Troubled Real Estate Company
EFIN/EINV/ENRG: Solbes Calls for Level Playing Field as
Iberdrola Opposes Possible EDF Bid
ENRG/EINV: ECJ Rules Against Spain for Defying EC on German
ENDESA Takeover Bid
ECON: Ana Palacio Leaving World Bank
KIPR: Barcelona Judge Orders Website Selling Counterfeit
Goods Blocked
EFIN/ETRD: BBVA is World Leader in Trade Finance
EIND: Ferrovial wins 3 large service contracts
EIND: Renault showing signs of growth

DUBAI SOVEREIGN INVESTMENT FUND (ICD) BUYS TROUBLED REAL
ESTATE COMPANY

11. (U) The ICD came to an agreement with troubled real estate construction company Colonial owners Luis Portillo and Luis Nozaleda on 3/4/08. The Dubai fund will buy Colonial's bricks and mortar real estate assets and will end up paying something between euros 1.9 billion and 2.1 billion, i.e., about euros 1.3 per share. Portillo and Nozaleda are keeping the land owned by Colonial, which is valued at euros 1.8 billion. The investment fund had originally offered euros 1.72 per share. (Comment: We cannot evaluate whether the parties' business strategy makes sense. The Dubai investment fund's entry into the troubled Spanish real estate sector is likely welcomed by the Spanish government, although the National Securities Exchange Commission (CNMV) is investigating the details of the transaction to make sure it is being conducted properly.) (Expansion, 3/5/08)

SOLBES CALLS FOR LEVEL PLAYING FIELD AS IBERDROLA OPPOSES
POSSIBLE EDF BID

12. (U) While in Brussels on 3/4/08, Second Vice President and Finance Minister Solbes said that the fact that it was impossible to mount a takeover bid for French majority government-owned energy giant EDF was a "pertinent" factor in Iberdrola's defense against a possible EDF and ACS (Spanish construction firm) attempt to take over Iberdrola. However, Solbes was careful to add that the Spanish government had nothing to say for or against a possible takeover of Iberdrola. His emphasis was on the need for a level European playing field in the energy sector. Iberdrola has filed a complaint in Brussels against the French government for its role in the possible EDF bid. (Comment: The possible takeover of Iberdrola, like Gas Natural's bid for Endesa in the past, has become a political football in Spain. The Spanish government has indicated neutrality on the issue. The opposition conservative PP party has said it would like

Iberdrola to remain in Spanish hands.) (Expansion, 3/5/08 and WSJ, 3/4/08)

ECJ RULES AGAINST SPAIN FOR DEFYING EC ON GERMAN ENDESA TAKEOVER BID

13. (U) On March 6, the EU Court of Justice ruled that Spain violated EU law in refusing to comply with an EC ruling related to the Endesa takeover controversy. Endesa, one of the world's largest electricity utilities, was the subject of a bitter takeover battle that lasted over a year. During the contentious battle, Spain had imposed restrictive conditions against one of the primary bidders, Germany energy giant E.ON. In response, the EC had mandated that Spain withdraw those conditions. Spain had refused to do so, citing its own national authority on such matters. The March 6 ruling affirmed that EC authority superseded Spain's authority in this matter. Although the proposed acquisition has fallen through, and Italian firm Enel and Spanish firm Acciona won control of Endesa in 2007, Spain must still withdraw the conditions. If the EC is not satisfied with Spain's actions, it may bring another case to the ECJ that could result in Spain being fined. (EFE 03/06/08, CNN.Money 03/06/08)

ANA PALACIO LEAVING WORLD BANK

14. (U) The Bank's legal director, who was Spain's Foreign Minister under President Aznar, has announced her departure as of April 15. Expansion writes that her departure is one more sign of diminishing Spanish presence in important international economic organizations. Rodrigo Rato left his post as head of the IMF last fall. EU Commissioner for Economic and Monetary Affairs Joaquin Almunia is likely to leave his job next year. Jose Manuel Gonzalez Paramo is likely to leave the board of the European Central Bank soon. One exception: former Spanish Central Bank President Jaime Caruana remains in the IMF as head of the influential markets

MADRID 00000287 002.2 OF 002

division. There is still discussion in the media about the possibility of Spain joining the G-8, although the GOS has not formally applied for membership. The opposition conservative PP part would like Spain to join, but it recognizes that, realistically, this could not happen before 2012. (Expansion, 3/5/08)

BARCELONA JUDGE ORDERS WEBSITE SELLING COUNTERFEIT GOODS BLOCKED

15. (U) On March 3, a Barcelona judge ordered a website that supposedly sells counterfeited products from China blocked to Spanish users. This is the first time this has happened in Spain. The National Police and the President of the Association of the Defense of Namebrands (ANDEMA), Jose Luis Bonet, have underscored the importance of this action as a stepping stone to pursue other such sites. (Terra)

BBVA IS WORLD LEADER IN TRADE FINANCE

16. (U) According to Dealogic numbers, last year the Spanish bank had 8.3% of the global market in this year and financed deals worth USD 9.3 billion, making it the leader in trade finance, exclusive of aircraft and shipping. Citi came in fourth place and Santander in 11th place. (Expansion, 3/5/08)

FERROVIAL WINS 3 SERVICES CONTRACTS

17. (U) Spanish construction group Ferrovial was awarded three service contracts totaling 42.5 million euros. One is to manage buildings at schools, sports centers, and administration offices for the Madrid autonomous community (region) government. This expands its presence in the Madrid community, where it already manages university, hospital, and jail buildings. Another contract is to manage a 24 hour emergency call center in Valencia for the autonomous community government, and the third is to maintain 264

kilometers of highway in Valencia for the national public works ministry. (Terra 2 Mar)

RENAULT SPAIN SHOWING SIGNS OF GROWTH

¶8. (U) Renault Spain is finally seeing the light at the end of the tunnel after three years of struggling due to the lack of success of the Modus model made at its Valladolid plant. With the introduction of a new Megane model at its Palencia plant, the company plans to hire 4,200 workers and expand its 2008 production by 7.8 percent to 303,000 vehicles, the first growth in four years. The firm is not expected to approach its 2003 production level of 547,000 vehicles until the Valladolid plant begins to produce a new model sometime after ¶2009.
AGUIRRE